

AREA EDUCATION AGENCY 4

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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AREA EDUCATION AGENCY 4

Officials

<u>Name</u>	<u>Title</u> <u>Board of Directors</u>	<u>Term Expires</u>
Jan Rolston	President	2004
Fred Gaalswyk	Vice-President	2005
Percy Zylstra	Member	2005
Phil Patton	Member	2006
Adella Hulstein	Member	2004
Edith Julius	Member	2004
Roger Brinkert	Member	2006

Agency

Les Douma	Chief Administrator	2004
Gloria Miller	Board Secretary	2004
Wayne Hess	Business Manager and Board Treasurer	Indefinite

KROESE&KROESE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

31 2ND AVENUE NW
LE MARS, IA 51031
(712) 546-5131

Independent Auditor's Report

To the Board of Directors of
Area Education Agency 4

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Area Education Agency 4 as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Area Education Agency 4 at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 15, 2004 on our consideration of Area Education Agency 4's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Area Education Agency 4's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1-4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Le Mars, Iowa
November 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 4 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow:

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,330,618 in fiscal 2003 to \$6,225,613 in fiscal 2004, and other financing sources decreased from \$754,766 in fiscal 2003 to \$95,349 in fiscal 2004. General Fund expenditures decreased from \$6,690,334 in fiscal 2003 to \$6,580,194 in fiscal 2004. This resulted in a decrease in the General Fund balance from \$1,371,382 in fiscal 2003 to \$1,112,150 in fiscal 2004.
- The major difference in the other financing sources amount was the proceeds from a refinancing loan in the amount of \$500,000 in fiscal 2003. The transfer of the loan to pay off the old balance due on the agency office building was included in the expenditures for fiscal 2003.
- The General Fund revenue for fiscal 2004 reflects an additional cut in state aid of \$268,106. General Fund expenditures for fiscal 2004 include a \$221,106 balance reversion to the State of Iowa. The decreased revenue in fiscal 2004 caused the Agency to reduce expenditures for services in certain areas and to use some carryover balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Area Education Agency 4 as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statements of revenues, expenditures and changes in fund balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities by provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a statements of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Area Education Agency 4's net assets at the end of fiscal 2004 totaled approximately \$2.4 million. This compared to approximately \$2.6 million at the end of fiscal 2003. The analysis that follows focuses on the net assets and changes in net assets.

	Condensed Statement of Net Assets		
	Governmental Activities	Business Type Activities	Total
	June 30,	June 30,	June 30,
	2004	2004	2004
Current and other assets	\$3,031,820		\$3,031,820
Capital assets	1,590,332		1,590,332
Total assets	4,622,152		4,622,152
Long-term liabilities	400,000		400,000
Other liabilities	1,855,908		1,855,908
Total liabilities	2,255,908		2,255,908
Net assets:			
Invested in capital assets,			
Net of related debt	1,140,332		1,140,332
Restricted	206,377		206,377
Unrestricted	1,019,535		1,019,535
Total net assets	\$2,366,244		\$2,366,244

The Agency's combined net assets decreased by 10.4%, or approximately \$273,475 from fiscal 2003. The decrease occurred primarily in governmental activities as a result of providing more services to local school districts during the year ended June 30, 2004. The decrease in unrestricted net assets was primarily due to the Agency using carryover fund balance to meet its financial obligations during the year.

The following analysis details the changes in net assets of the Agency's activities.

Condensed Statement of Net Assets			
	Governmental Activities	Business Type Activities	Total
	Year ended June 30,	Year ended June 30,	Year ended June 30,
	2004	2004	2004
Revenues:			
Program revenues:			
Charge for service	\$3,673,075	\$226,088	\$3,899,163
Operating grants and contributions	2,769,274		2,769,274
General revenues:			
Property tax	1,764,042		1,764,042
State aid	1,414,704		1,414,704
Unrestricted investment earnings	7,198		7,198
Total revenues	9,628,293	226,088	9,854,381
Program expenses:			
Instruction	2,798,635		2,798,635
Student support services	2,819,010		2,819,010
Instructional staff support services	1,574,428		1,574,428
General administration	720,868		720,868
Business administration	411,648		411,648

Printing, delivery, coop services	128,294	128,294
Plant operations and maintenance	270,494	270,494
Student transportation	430,390	430,390
Central and other support services	731,091	731,091
Long-term debt interest	16,910	16,910
Non-instructional programs	226,088	226,088
Total expenses	<u>9,901,768</u>	<u>10,127,856</u>
Decrease in net assets	(273,475)	(273,475)
Net assets beginning of year	<u>2,639,719</u>	<u>2,639,719</u>
Net assets end of year	<u><u>\$2,366,244</u></u>	<u><u>\$2,366,244</u></u>

Operating grants and contributions from local, state and federal sources account for 60.4% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 75.2% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,628,293 and expenses were \$9,901,768. In a difficult budget year, the Agency was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

Business Type Activities

Revenues of the Agency's business type activities were \$226,088 and expenses were \$226,088. The Agency's business type activity is the Cooperative Purchasing program. Revenues for this activity are comprised of charges for service. Expenses are for the purchase of items for resale.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Area Education Agency 4's uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$1,225,912, below last year's ending fund balances of \$1,467,102. The primary reason for the decrease in combined fund balances in fiscal 2004 was due to reductions in state funding and a reversion of fund balance.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget one time. The amendments to revenue reflected the decreased amount of state aid in the general fund, the increased amount of federal money in the general fund, and the decreased amount of tuition revenue in the special revenue fund. The amendments to expenditures reflected a decrease in the special revenue fund due to staff reductions and an increase in the general fund to include the fund balance reversion. Other minor adjustments to revenue and expenditures were included in the amended budget. A schedule showing the original and final budget amounts compared to the Agency's financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Agency had invested \$1,590,332, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of approximately \$32,285 million from last year. This decrease was primarily due to cutting back on capital asset purchases in FY04.

Area Education Agency 4 had depreciation expense of \$252,990 in fiscal 2004 and total accumulated depreciation of \$752,711 at June 30, 2004. More detailed information about capital assets is available in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2004, the Agency had \$450,000 in long-term debt outstanding compared to \$500,000 at June 30, 2003. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Agency will continue to see substantial funding cuts in state aid while the demand for services continues to grow.
- The Agency's enrollment will continue to decline and the state controlled funding for the Agency is tied to enrollment.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Business Manager's Office, 1382 4th Avenue NE, Sioux Center, Iowa, 51250.

Area Education Agency 4

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 1,307,526
Receivables:	
Accounts	668,387
Due from other governments	239,859
Inventories	57,959
Prepaid expenses	7,486
Restricted ISCAP assets:	
Investments	750,603
Capital assets (net of accumulated depreciation)	<u>1,590,332</u>
Total assets	<u><u>\$ 4,622,152</u></u>
Liabilities	
Accounts payable	\$ 264,334
Salaries and benefits payable	762,540
ISCAP warrants payable	757,000
Deferred revenue:	
Miscellaneous	22,034
Long-term liabilities:	
Portion due or payable within one year:	
Capital leases	50,000
Portion due or payable after one year:	
Capital leases	<u>400,000</u>
Total liabilities	<u><u>\$ 2,255,908</u></u>
Net assets:	
Invested in capital assets, net of related debt	\$ 1,140,332
Unrestricted	<u>1,225,912</u>
Total net assets	<u><u>\$ 2,366,244</u></u>

See notes to financial statements.

Area Education Agency 4

Statement of Activities

Year ended June 30, 2004

		Program Revenues		Net (Expense)
	Expenses	Charges for Service	Operating Grants, and Contributions	Revenue and Changes in Net Assets
Functions/Programs:				
Governmental activities:				
Instruction	\$2,798,635	\$2,828,064		\$ 29,429
Student support services	2,819,010		\$2,300,987	(518,023)
Instructional staff support services	1,574,428	302,587		(1,271,841)
General administration	720,868			(720,868)
Business administration	411,648			(411,648)
Printing, delivery, coop services	128,294	31,533		(96,761)
Plant operations and maintenance	270,494			(270,494)
Student transportation	430,390	430,390		
Central and other support services	731,091	80,501	468,287	(182,303)
Interest on long-term debt	16,910			(16,910)
Total governmental activities	<u>\$9,901,768</u>	<u>\$3,673,075</u>	<u>\$2,769,274</u>	<u>\$(3,459,419)</u>
Business type activities:				
Non-instructional programs:				
Cooperative purchasing	<u>226,088</u>	<u>226,088</u>		
Total	<u>\$10,127,856</u>	<u>\$3,899,163</u>	<u>\$2,769,274</u>	<u>\$(3,459,419)</u>
General revenues:				
Property tax				1,764,042
State foundation aid				1,414,704
Unrestricted investment earnings				<u>7,198</u>
Change in net assets				<u>(273,475)</u>
Net assets beginning of year, as restated				<u>2,639,719</u>
Net assets end of year				
See notes to financial statements.				<u>\$2,366,244</u>

Exhibit C

Area Education Agency 4

Balance Sheet
Governmental Funds

June 30, 2004

		Special Revenue	
		Special Education	
	General	Instruction	Total
Assets			
Cash and pooled investments	\$ 1,293,008	\$ 14,518	\$ 1,307,526
Receivables:			
Accounts	169,770	498,617	668,387
Due from other governments	239,859		239,859
Inventories	55,459	2,500	57,959
Prepaid expenditures	7,486		7,486
Restricted ISCAP assets			
Investments	<u>750,603</u>		<u>750,603</u>
Total assets	<u>\$ 2,516,185</u>	<u>\$ 515,635</u>	<u>\$ 3,031,820</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	184,212	80,122	264,334
Salaries and benefits	440,789	321,751	762,540
ISCAP warrants payable	757,000		757,000
Deferred revenue:			
Miscellaneous	<u>22,034</u>		<u>22,034</u>
Total liabilities	1,404,035	401,873	1,805,908
Fund balances:			
Reserved for:			
Inventories	55,459	2,500	57,959
Prepaid expenditures	7,486		7,486
Special purpose	143,432		143,432
Unreserved:			
Designated for subsequent year's expenditures	498,406	111,262	609,668
Undesignated, reported in:			
General fund	<u>407,367</u>		<u>407,367</u>
Total fund balances	<u>\$ 1,112,150</u>	<u>\$ 113,762</u>	<u>\$ 1,225,912</u>
Total liabilities and fund balances	<u>\$ 2,516,185</u>	<u>\$ 515,635</u>	<u>\$ 3,031,820</u>

See notes to financial statements.

Area Education Agency 4

Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances	\$1,225,912
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$2,343,043 and the accumulated depreciation is \$752,711.	1,590,332
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Long-term liabilities, including certificates of participation, capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(450,000)</u>
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Net assets of governmental activities	<u><u>\$2,366,244</u></u>
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See notes to financial statements

Exhibit E

Area Education Agency 4

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Special Revenue Special Education Instruction	Total
Revenues:			
Local sources	2,106,944	3,283,561	5,390,505
State sources	1,567,688	33,618	1,601,306
Federal sources	<u>2,550,981</u>	<u>5,000</u>	<u>2,555,981</u>
Total revenues	6,225,613	3,322,179	9,547,792
Expenditures:			
Current:			
Instruction	139,173	2,655,722	2,794,895
Student support services	2,820,046		2,820,046
Instructional staff support services	1,557,679	7,989	1,565,668
General administration	603,772	115,730	719,502
Business administration	411,239		411,239
Printing, delivery, cop services	137,382		137,382
Plant operations and maintenance	204,479		204,479
Student Transportation		427,261	427,261
Central and other support services	639,514	2,086	641,600
Facilities acquisition and construction			
Debt service			
Total expenditures	<u>6,513,284</u>	<u>3,208,788</u>	<u>9,722,072</u>
Excess (deficiency) of revenues over (under) expenditures	(287,671)	113,391	(174,280)
Other financing sources (uses):			
Transfers in	95,349		95,349
Transfers out	<u>(66,910)</u>	<u>(95,349)</u>	<u>(162,259)</u>
Total other financing sources (uses)	28,439	(95,349)	(66,910)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(259,232)	18,042	(241,190)
Fund balances beginning of year	<u>1,371,382</u>	<u>95,720</u>	<u>1,467,102</u>
Fund balances end of year	<u>\$1,112,150</u>	<u>\$ 113,762</u>	<u>\$ 1,225,912</u>

See notes to financial statements.

Exhibit F

Area Education Agency 4

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances – total governmental funds \$ (241,190)***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	220,705	
Depreciation expense	(252,990)	(32,285)

Change in net assets of governmental activities \$(273,475)

See notes to financial statements.

Exhibit G

Area Education Agency 4

Statement of Net Assets
Proprietary Fund

June 30, 2004

	<u>Cooperative Purchasing</u>
Assets	
Cash and cash equivalents	
Due from other governments	
Inventories	
Total assets	<u>\$ 0</u>
Liabilities	
Accounts payable	
Net Assets	
Unrestricted	<u>\$ 0</u>

See notes to financial statements.

Exhibit H

Area Education Agency 4

Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>Cooperative Purchasing</u>
Operating revenues:	
Charges for service	\$ 226,008
Operating expenses:	
Non-instructional programs:	
Supplies and materials	<u>226,088</u>
Net income	
Net assets beginning of year	
Net assets end of year	<u>\$ 0</u>
See notes to financial statements.	

Exhibit I

Area Education Agency 4

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>Cooperative Purchasing</u>
Cash flows from operating activities:	
Cash received from customers	\$ 226,088
Cash paid to suppliers	(226,088)
Net cash used in operating activities	<u> </u>
Cash and cash equivalents beginning of year	
Cash and cash equivalents end of year	<u><u>\$ 0</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ 0
Adjustments to reconcile operating loss to net cash used in operating activities:	
Net cash used in operating activities	<u><u>\$ 0</u></u>

See notes to financial statements.

Area Education Agency 4

Notes to Financial Statements

June 30, 2004

(1) **Summary of Significant Accounting Policies**

Area Education Agency 4 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to school districts in a five-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Area Education Agency 4 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. Area Education Agency 4 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following nonmajor governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other cost.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency reports the following nonmajor propriety fund:

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities that are performed as a service to staff and consist primarily of vending machine operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund of the Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's Enterprise Fund is charges to customers for services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to know amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and material. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two year.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Furniture and equipment	2,000
Media materials	2,000

Capital assets of the Agency are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Furniture and equipments	5-15
Media materials	5-10

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year-end. The Agency's investments are all Category 1, which means the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

The Agency's investments at June 30, 2004 consisted of the following:

Type	Fair Value
Certificates of Deposit	<u>\$650,000</u>

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$90,074 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank Iowa, N.A, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo Bank Iowa, N.A. maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the Statement of Net Assets and balance sheet. A summary of the Agency's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04A	6/20/03	6/18/04				
2003-04B	1/30/04	1/28/05				
2004-05A	6/30/04	6/30/05	<u>\$750,603</u>	_____	<u>\$757,000</u>	
Total			<u>\$750,603</u>	=====	<u>\$757,000</u>	

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ --			\$ --
2003-04B	<u>--</u>			<u>--</u>
Total	<u>\$ --</u>			<u>\$ --</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.0%	1.051%
2003-04B	2.0%	1.0385%
2004-05A	3.0%	2.463%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 63,750			\$ 63,750
Total capital assets not being Depreciated	63,750			63,750
Capital assets being depreciated:				
Buildings	1,127,049			1,127,049
Furniture and equipment	670,003	\$160,555		830,558
Media materials	261,536	60,150		321,686
Total capital assets being depreciated	2,058,588	220,705		2,279,293
Less accumulated depreciation for:				
Buildings	40,999	22,541		63,540
Furniture and equipment	322,558	166,112		488,670
Media materials	136,164	64,337		200,501
Total accumulated depreciation	499,721	252,990		752,711
Total capital assets being depreciated, net	1,558,867	(32,285)		1,526,582
Governmental activities capital assets, net	<u>\$1,622,617</u>	<u>\$(32,285)</u>		<u>\$1,590,332</u>
Depreciation expenses was charged to the following functions:				
Governmental activities:				
Instruction				\$ 5,786
Student support services				13,698
Instructional staff support services				71,317
General administration				1,366
Business administration				409
Printing, delivery, coop services				20,030
Plant operations and maintenance				29,083
Student Transportation				102,311
Central and other support services				8,990
Total				<u>\$ 252,990</u>

(5) Changes in Long-Term Liabilities

A summary of change in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Capital leases	\$500,000	\$50,000		\$450,000
Total	<u>\$500,000</u>	<u>\$50,000</u>		<u>\$450,000</u>

The Agency has leased a facility within the area to house the different divisions of the Agency. The lease has been classified as a capital lease. The lease expires on May 1, 2012. The lease also requires the payment of normal maintenance and insurance on the property.

The following is a schedule by year of future lease-purchase payments required, at a discounted interest rate of 2.5% - 4.3%, as of June 30, 2004.

June 30	Year-ending Amount
2005	\$ 70,660
2006	64,285
2007	68,010
2008	61,360
2009	64,710
Thereafter	<u>201,270</u>
Total	530,295
Less discounted interest	<u>80,295</u>
	<u>\$450,000</u>

Payments under this agreement for the year ended June 30, 2004 totaled \$66,910.

Capital Lease July 1, 2003	\$500,000
Reductions	<u>50,000</u>
Capital Lease June 30, 2004	<u>\$450,000</u>

(7) Pension and Retirement Benefits

The Agency contributes to the Iowa public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$295,290, \$290,672 and \$290,001, respectively, equal to the required contributions for each year.

(8) Risk Management

Area Education Agency 4 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Area Education Agency 4

Schedule of Revenues, Expenditures/Expenses and Changes
in Balances – Budget and Actual
All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Revenues:			
Local sources	\$5,390,505	\$226,088	\$ 5,616,593
State sources	1,601,306		1,601,306
Federal sources	2,555,981		2,555,981
Other sources			
Total revenues	\$9,547,792	\$226,088	\$ 9,773,880
Expenditures/Expenses:			
Current			
Instruction	\$2,794,895		\$2,794,895
Student support services	2,820,046		2,820,046
Instructional staff support services	1,565,668		1,565,668
General administration	719,502		719,502
Business administration	411,239		411,239
Printing, delivery, coop services	137,382		137,382
Plant operation and maintenance	204,479		204,479
Student transportation	427,261		427,261
Central and other support services	641,600		641,600
Non-instructional programs		\$226,088	226,088
Debt services	66,910		66,910
Facilities acquisition and construction			
Total expenditures/expenses	\$9,788,982	\$226,088	\$10,015,070
Deficiency of revenues under expenditures/expenses	(241,190)		(241,190)
Other financing sources, net			
Deficiency of revenues and other financing sources under expenditures and other financing uses	(241,190)		(241,190)
Balance beginning of year	1,467,102		1,467,102
Balance end of year	\$1,225,912		\$1,225,912

See accompanying independent auditor's report.

Budget		Final to Actual Variance Favorable (Unfavorable)
Original	Final	
\$ 6,156,846	\$ 5,857,316	\$(240,723)
1,873,638	1,596,437	4,869
2,338,211	2,518,355	37,626
<u>\$10,368,695</u>	<u>\$9,972,108</u>	<u>\$(198,228)</u>
\$2,924,173	\$2,866,525	\$71,630
2,951,115	2,838,325	18,279
1,831,167	1,740,960	175,292
731,510	707,415	(12,087)
190,441	407,764	(3,475)
144,895	159,915	22,533
187,013	211,895	7,416
549,221	502,335	75,074
543,637	650,221	8,621
310,000	300,000	73,912
55,000	66,900	(10)
<u>\$10,418,172</u>	<u>\$10,452,255</u>	<u>\$437,185</u>
<u>(49,477)</u>	<u>(480,147)</u>	<u>238,957</u>
(49,477)	(480,147)	238,957
<u>991,122</u>	<u>1,467,102</u>	
<u>\$ 941,645</u>	<u>\$ 986,955</u>	<u>\$238,957</u>

Area Education Agency 4

Note to Required Supplementary Information – Budgetary Reporting

June 30, 2004

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

Schedule 1

Area Education Agency 4
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	<u>Debt Service</u>
Assets	
Cash and pooled investments	
Due from other governments	
Total assets	<u>\$ 0</u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	
Salaries and benefits payable	
Total liabilities	<u> </u>
Fund balances:	
Unreserved, undesignated	<u> </u>
Total liabilities and fund balances	<u>\$ 0</u>

See accompanying independent auditor's report.

Area Education Agency 4

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	<u>Debt Service</u>
Revenues:	
Local sources	
State sources	
Total revenues	
Expenditures:	
Current:	
Instruction	
General administration	
Facilities acquisition and construction	
Debt service	<u>\$66,910</u>
Total expenditures	<u>66,910</u>
Deficiency of revenues under expenditures	(66,910)
Other financing sources:	
Transfers in	<u>66,910</u>
Excess (deficiency) of revenues and other financing Sources over (under) expenditures	<u>\$ --</u>
Fund balances beginning of year	
Fund balances end of year	<u>\$ --</u>
See accompanying independent auditor's report.	

Schedule 3

Area Education Agency 4

Schedule of Revenues by Source and Expenditures by Function –
All Governmental Funds

For the Last Four Year

	Modified Accrual Basis			
	Years ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local	\$5,390,505	\$ 5,757,750	\$5,663,612	\$5,784,598
State	1,601,306	1,864,311	1,772,961	2,027,951
Federal	2,555,981	2,268,338	2,056,169	1,556,250
Other		516,100		
Total	<u>\$9,547,792</u>	<u>\$10,406,499</u>	<u>\$9,492,742</u>	<u>\$9,368,799</u>
Expenditures:				
Current:				
Instruction	\$2,794,895	\$2,742,044	\$2,789,696	\$2,551,807
Student support services	2,820,046	2,779,179	2,815,400	2,958,601
Instructional staff support services	1,565,668	1,634,945	1,854,786	1,738,956
General administration	719,502	715,676	650,754	722,541
Business administration	411,239	187,034	175,502	165,537
Printing, delivery, coop services	137,382	124,644	131,102	145,696
Plant operation and maintenance	204,479	289,944	272,708	284,744
Student transportation	427,261	446,862	487,536	506,332
Central and other support services	641,600	529,099	383,562	243,018
Debt service	66,910	487,792	68,500	68,500
Facilities acquisition and construction				
Total	<u>\$9,788,982</u>	<u>\$9,937,219</u>	<u>\$9,629,546</u>	<u>\$9,385,732</u>

See accompanying independent auditor's report.

Area Education Agency 4
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2004

Project Title	CFDA Number	Pass-through Grantor's Number	Program Expenditures
Indirect:			
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education - Grants to States	84.027		
Part B I.D.E.A.		030404	\$1,485,147
Part B (LEA Flow-through)		4KB2-04	468,287
Supplemental Support Services		3K72-04	24,752
Para Educator Training Project		3K76-04	5,000
Success 4		3K75-04	67,382
Parent Educator		37404	48,912
			<u>2,099,480</u>
Special Education - Grants for Infants and Families with Disabilities			
IDEA – Part C	84.181	C03-04	<u>119,991</u>
Special Education - Preschool Grants	84.173	03619-04	<u>84,921</u>
Perkins Vocations Education Basis Grants to State	84.048A		<u>47,265</u>
Professional Development State Grants	84.281A		<u>13,033</u>
Special Education State Program			
Improvement Grants, for Children with Disabilities	84.323	3IEP-04	<u>17,460</u>
Title I - Data Driven Leadership Training	84.348		<u>28,709</u>
Title III – English Language Learners	84.365		<u>28,620</u>
Total			<u>\$2,439,479</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Area Education Agency 4 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

KROESE&KROESE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

31 2ND AVENUE NW
LE MARS, IA 51031
(712) 546-5131

Independent Auditor's Report on Compliance And on Internal Control over Financial Reporting

To the Board of Directors
Area Education Agency 4:

We have audited the financial statements of Area Education Agency 4 as of and for the year ended June 30, 2004, and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Area Education Agency 4's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Area Education Agency 4's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Area Education Agency 4. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Area Education Agency 4's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Area Education Agency 4's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions, which we believe are material weaknesses. This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Area Education Agency 4 and other parties to whom Area Education Agency 4 may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Area Education Agency 4 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Le Mars, Iowa
November 29, 2004

KROESE&KROESE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

31 2ND AVENUE NW
LE MARS, IA 51031
(712) 546-5131

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Directors of
Area Education Agency 4:

Compliance

We have audited the compliance of Area Education Agency 4 with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Area Education Agency 4's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Area Education Agency 4's management. Our responsibility is to express an opinion on Area Education Agency 4's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Area Education Agency 4's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Area Education Agency 4's compliance with those requirements.

In our opinion, Area Education Agency 4 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Area Education Agency 4 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Area Education Agency 4's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted no matters involving the internal control over compliance and its operation that we consider to be a reportable condition.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions which we considered to be a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Area Education Agency 4 and other parties to whom Area Education Agency 4 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Le Mars, Iowa
November 29, 2004

Area Education Agency 4
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- a) An unqualified opinion was issued on the financial statements.
- b) No reportable conditions in internal control over financial reporting were found during the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) No reportable conditions in internal control over major program were found during the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major program was as follows:
 - CFDA Number 84.027 - Special Education – Grants to States
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- i) Area Education Agency 4 did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No Matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Area Education Agency 4
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-04 Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2004.
- Response – We will increase the maximum deposit amount.
- Conclusion – Response accepted.
- IV-B-04 Budget - Total disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- IV-C-04 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.
- IV F-04 Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- IV-I-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

Area Education Agency 4

Staff

This audit was performed by:

Rex E. Knapp, CPA, Partner

Robert J. Kroese, CPA, Partner